BRITISH COLUMBIA

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tel (250) 387-0327
fax (250) 387-0329

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highlights

a weekly digest of recently released British Columbia statistics

Prices

There was an error in the CPI data released by Statistics Canada last week. The following is a corrected version of a bullet published in the February 15th issue of this report.

Across the country, the CPI gained 1.3% in January compared to the same month of the previous year. Food (+4.6%) and alcoholic beverages and tobacco products (+13.1%) pushed prices up. Energy prices fell 7.0%. The largest price increase was seen in Alberta, where the CPI grew 3.5%. Quebec (+1.4%) and Ontario (+1.2%) also experienced relatively high inflation. Declining energy prices drove down the index in Newfoundland/Labrador (-0.2%), PEI (-0.6%) and Whitehorse (-0.6%).

Source: Statistics Canada

2001 in Review

- **The value of manufactured goods shipped by BC firms fell 9.7% during 2001.** The forest sector was particularly weak, with wood shipments dropping 10.7% while paper shipments plunged 19.4% during the year. In the durables sector, shipments were down 11.4% as all but two industries–non-metallic mineral (+7.9%) and miscellaneous manufacturing (+7.2%)–posted declines. Shipments of computer and electronic products were off 28.1%. On the non-durables side, there was more of a mixed bag, with sharp declines in paper (-19.4%), printing (-11.7%), and beverage and tobacco (-10.5%) manufacturing offset by growth in other industries. Food shipments were up 9.0%.

  Canadian shipments also fell (-5.2%) in 2001. The decline was widespread, but high-tech manufacturers were particularly hard-hit. Canadian shipments of computer and electronic products dropped 32.1%. Declines in other industries ranged from a modest –0.7% in the printing industry to -13.5% for manufacturers of electrical equipment, appliances and components. The transportation equipment industry cut back 8.8%. Total shipments by producers of non-durable goods were up 1.0%, but durable goods shipments fell 9.3% . *Source: Statistics Canada*

- **BC's manufacturing industry was most affected by the economic downturn in 2001, with shipments falling more (-9.7%) than anywhere else in Canada.** Ontario (-6.3%), Quebec (-5.2%) and Saskatchewan (-4.5%) also saw significant declines. New Brunswick (+7.3%) was the only province where shipments increased significantly last year.

  Source: Statistics Canada

- **Exports of BC products declined 6.4% during 2001, falling to $31.3 billion.** The drop in the value of exports was largely due to weakness in the forest sector (-11.6%). Logs, wood and paper products usually account for about half of the total value of BC's exports, but last year's decline in the forest sector put that number at about 44%. International shipments of industrial goods (-14.8%) also sagged during 2001, while exports of machinery and equipment were unchanged (+0.5%) from the previous year. However, the value of energy (+3.5%) and agriculture and fish (+10.8%) product exports increased. The increase in the energy sector was largely due to gains made early in the year, when exports were boosted by strong demand and soaring prices for gas and electricity exported to the US. BC's energy exports were more than double the 2000 value during the first five months of last year.

  Canadian exports fell 3.1% during 2001, dropping off in most parts of the country. New

Report **Benefits and Costs of a Higher Minimum Wage**

Did you know...
The median net worth of Canadian families was $64,600 in 1999. For those where the highest income-earner had a university degree, it was $118,000.

Brunswick (+11.6%), Nova Scotia (+10.7%) and Alberta (+2.8%) were the only regions to escape the general malaise. In all three provinces, total exports were boosted by solid growth in the energy sector, most of which occurred early in 2001, and by increased exports of agriculture and fish products. *Source: Statistics Canada*

- **Cash registers in the province were kept busy during 2001, with retail sales expanding 5.7% over the 2000 level.** Weaker economic conditions don't appear to have affected consumers unduly, as sales were up in every part of the country. Sales rose the most in Alberta (+9.1%), Newfoundland (+8.5%) and Manitoba (+5.8%). Increases in the rest of the country were in the two to four percent range. Canadian sales were up 4.5%.

  In BC, the biggest gains were made by retailers of household furnishings and appliances (+10.1%). Drug (+7.8%), food (+6.8%) and clothing (+6.2%) stores also saw solid growth. Sales by automotive retailers were up a more modest 4.9%, as were those by general merchandise (+4.2%) and other (+4.1%) retailers.
  Source: Statistics Canada

- **Wholesalers in the province saw the value of their sales drop 1.8% during 2001.** Sales by wholesalers of computers, building supplies, dry goods and other household goods declined, while food and beverage wholesalers saw an increase in the value of sales that was likely related to higher prices. BC and Newfoundland (-3.3%) were the only provinces where wholesale sales fell. Canadian sales were up 2.3% during the year, boosted by strong gains in the three prairie provinces (where sales increased at rates ranging from 8 to 12 percent), and more modest increases in other parts of the country.
  Source: Statistics Canada

- **The number of travellers entering Canada via BC declined (-2.0%) last year.** The drop in entries was the first since 1987, when visitor numbers fell from the peak reached during Expo 1986. Entries by US residents were down 1.6% in 2001, and overseas entries dropped 3.9%. While the events of September 11th contributed to the decline, entries had been tapering off throughout the year. *Source: Statistics Canada*

The Economy

- **Shipments of goods manufactured in BC continued to decline in December, decreasing 1.5% (seasonally adjusted).** The latest drop in shipments was the seventh in as many months. Canadian shipments were down 1.8%.
  Source: Statistics Canada

- **Exports of BC products fell sharply in December (-46.4%).** The magnitude of December's decline was largely due to energy exports, which plunged 83.0%. They had soared at the end of 2000, when high prices and increased demand due to energy shortages in California and other US states, boosted the total. The year-over-year drop in the value of energy exports is largely the result of a return to more normal levels. However, exports of most products have been weaker in recent months, and December was no exception. *Source: Statistics Canada*

- **BC retailers increased their sales 2.1% (seasonally adjusted) in December, more than in any other province except Quebec (+3.0%).** Canadian sales rose 1.6%, as shoppers in most parts of the country increased their spending.
  Source: Statistics Canada

- **Wholesale sales in the province were unchanged in December (-0.2%, seasonally adjusted).** Sales were also relatively flat at the national level (+0.3%), despite strong gains in some provinces. Saskatchewan (+8.9%) led the way, with Manitoba (+2.3%) and Alberta (+1.8%) posting more modest increases. Nova Scotia (+0.8%) was the only other province where sales were up. *Source: Statistics Canada*

Tourism

- **Visitor entries to the province increased 10.2% (seasonally adjusted) in December, as they continued to recover from a post 9/11 slump.** Entries from the US were up 9.6%, while those from overseas sources increased 13.0%. Canadian re-entries from the US via BC rose 5.0% between November and December.
  Source: Statistics Canada & BC STATS

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For data originating from Statistics Canada: data sourced to 'Statistics Canada' has been retrieved from CANSIM, the agency's electronic database (www.statcan.ca); otherwise the source is identified as 'SC' plus the publication name or catalogue number.

Feb. 22, 2002 *Infoline Report:* **The Benefits and Costs of a Higher Minimum Wage**

Contact: Dan Schrier, (250) 387-0376
Originally published in Small Business Quarterly, November 2001. Annual subscription $30 plus GST

The Benefits and Costs of a Higher Minimum Wage

The recent changes to the British Columbia minimum wage have rekindled the debate regarding its effects and effectiveness. As of November 1, 2001, the BC minimum wage was raised from $7.60 an hour to $8.00 an hour. In addition, a "first-job" wage rate of $6.00 an hour was established effective November 15.

Supporters of minimum wage policy suggest that not only does it ensure fair pay, but it also helps redistribute wealth to the poorest in society. Also, increases to the minimum wage can create incentives to enter the labour force.

Critics of minimum wage policy suggest that the minimum wage is a poor method of redistributing income and it also tends to hurt the very people it is intended to help. They suggest that hikes in the minimum wage inevitably lead to reductions in employment as the increased cost to business forces employers to either reduce the number of employees or at least cut the number of hours per employee. Another argument against raising the minimum wage is that, in British Columbia, it is already the highest in Canada, and higher than that of other nearby competitors. It is also suggested that most of the beneficiaries of increased minimum wages do not reside in low-income households. Rather, they are young people living with their parents, or second-earners in a dual-income family.

There are numerous studies that examine the effect of minimum wage increases on businesses and employment, but many of these studies have contradictory findings. In reality, the effects of minimum wage increases depend on a large number of variables, which means that the findings of any one study may not be applicable to a particular place or a particular time.

Employment Impacts

According to an OECD report based on a 1998 study of minimum wage changes in nine countries,

> a 10% increase in the minimum wage is associated with a 11/2-3% decline in teenage employment...The evidence also shows that hikes in the minimum, on their own, can explain only a small fraction of the large falls in teenage employment rates observed over the past two decades in almost all countries. The cross-country evidence suggests that the minimum wage has no significant impact on overall employment.[1]

This suggests that employment impacts depend on a variety of circumstances and it is misleading to suggest that a raise in the minimum wage will necessarily lead to widespread job loss.

The impact on youth employment may be due to businesses being able to attract more experienced workers at the higher wages, leaving less-experienced younger workers with fewer opportunities. Another possibility is that employers may find ways to do without some of the younger, less-skilled employees, either by substituting capital or increasing the workload of other employees.

It has been argued that a lower training wage, like BC's new first-job wage rate, may be one way to help alleviate youth unemployment. The rate applies to the first 500 hours worked in any job. Once a person has recorded 500 hours of employment, any further work they do, for either their current employer or a future employer, must be paid at least at the regular minimum wage.

[1] "Towards an Employment-centred Social Policy," The OECD Observer No. 213 (August/September 1998)

Proponents of this wage rate, like the BC Restaurant and Foodservices Association and the Retail Merchants' Association of BC, say that this lower training wage will encourage the hiring of teens and enable young people with no experience to get work.

Those against the new first-job rate, including various labour groups such as the BC Federation of Labour, suggest that the new wage rate is open to abuse. They point out that there is nothing to prevent an employer from terminating an employee once they reach 500 hours and hiring someone else at the lower rate. They also suggest that some people may choose to take the lower rate even though they have worked over 500 hours rather than risk losing their job.

A differential minimum wage for younger, unskilled employees is also in place in Ontario, Nova Scotia and the territories.

Comparison with other jurisdictions

British Columbia's minimum wage was already the highest in the country before the recent increase to $8 an hour, but it is not necessarily higher than rates in the United States. With a simple exchange rate comparison, the United States' federal minimum wage of $US 5.15 an hour is close to $8 as well (using a Canadian dollar worth in the range of $0.62-$0.65 US dollars). In fact, in neighbouring Washington State, the minimum wage is $US 6.72 or about $10.35 in Canadian dollars (at an exchange rate of $0.65). There is a proposal to raise the federal minimum wage in the United States to $6.65 by 2003. This is well over $10 an hour in Canadian currency at current exchange rates.

However, exchange rate comparisons ignore the differences in the cost of living between jurisdictions. A better method for comparing wages in different currencies is to examine their purchasing power parity (PPP). PPPs are rates of currency conversion that eliminate the differences in price levels between countries. Based on comparative price levels developed using a July 2001 PPP, the $8 BC minimum wage is well above the federal US minimum wage (approximately $6.44 after adjustment), but is still below that of Washington ($8.40), Oregon ($8.13) and California ($8.44), as well as some other states. A concept similar to PPP is not readily available to compare provincial price levels, but based on Statistics Canada studies of retail price differentials, the minimum wage gap is likely somewhat narrower than it appears, although the BC wage would still be the highest in the country.

A look at the minimum wage over time adjusted for inflation using the Consumer Price Index shows that even at $8 an hour, the minimum wage is still significantly below its peak in the mid-seventies. This means that the increased labour cost to businesses paying minimum wage has been less than the overall rate of inflation over the last 25 years.

Inflation has eroded minimum wage

Although the evidence does not support complaints that minimum wage hikes create serious disemployment effects and arguments about competitive disadvantages are less clear-cut than they appear, there is still the question of whether or not the minimum wage is a good tool for income redistribution.

Profile of minimum wage earners

Detractors of minimum wages argue that raising the minimum wage will not help the poor because most minimum wage earners are middle-class teenagers living at home or secondary earners in dual-income families. The profile of the minimum wage earner may support this view, although the numbers would have to be examined in more detail to come to a definitive conclusion.

Based on Statistics Canada data, in 2000, 61% of minimum wage earners in British Columbia were adults (i.e., over 19) and almost 45% were over 25. Approximately two thirds of all minimum wage earners were in dual earner families, and about 14% were single earners with one or more children under 18 years old.

Although there is little data available to examine minimum wage earners by business size, a majority of the businesses in the industries in which minimum wage jobs are most prevalent are classified as small businesses. The large majority of minimum wage jobs are in the service sector (88%), particularly in accommodation and food (30%) and retail and wholesale trade (25%). It is no surprise then, that the restaurant industry is one of the most vocal opponents of minimum wage increases, particularly since many of their employees receive tips to supplement their wages and therefore are actually making more than the minimum wage. One approach to alleviate this concern that has already been implemented in Quebec and Ontario is to have a lower minimum wage for those people who regularly earn tips to supplement their income.

Most minimum wage jobs are in the accommodation & food or trade sectors

Alternative redistribution methods

The clear beneficiaries of minimum wage hikes are those workers earning minimum wage, but the main criticism is that many of these workers are in households with incomes above the median, while those households with no workers do not benefit at all. While higher minimum wages may achieve the goal of ensuring fair pay, they may also fail at the second goal of redistributing income.

The BC Chamber of Commerce suggests that an alternative to raising the minimum wage is to offer more tax credits to lower-income families. The usual criticism of this kind of strategy is that these families do not pay much tax, if any, to begin with. Another problem with offering tax credits in lieu of better wages is that it operates as a subsidy to businesses that pay lower wages, possibly at the expense of those businesses willing to pay higher wages.

The OECD suggests that policies on minimum wages and tax/benefit systems should not be considered separately, but rather as complementary parts of an overall system designed to redistribute income. An example of this would be to combine a minimum wage increase with a payroll tax deduction. This would have the effect of not only boosting the earnings of low-income workers, but also allowing them to keep more of that income instead of putting it toward payroll taxes. Also, it would offset the cost of the salary increase for businesses since they would no longer have to pay as much in payroll taxes.

Of course, such a policy would have to be implemented carefully. Too much of a wage increase could not only lead to a reduction in employment for some portions of the labour force, but could also cause a significant rise in inflation. Too much of a decline in payroll taxes could leave the programs they are supporting (such as the Employment Insurance program) vulnerable to downturns in the economy.

Conclusion

The effects of changes to the minimum wage tend to be exaggerated by both detractors and supporters. There are many factors that must be considered in determining the effect of a minimum wage increase, including the size of the wage bump, the business cycle, the kind of tax and benefit systems in place, and the labour supply, just to name some.

This last item will become increasingly important over the next decade. Demographers agree that North America is facing a labour shortage in the coming years as the proportion of working-age population declines relative to that of retirement age. This could make the entire minimum wage debate moot, as employers will need to raise wages to attract scarce labour.

On its own, a minimum wage hike may not be the best method of redistributing income and may actually have some disemployment impacts on the younger members of the labour force. A policy that combines an increase to the minimum wage with a decline in payroll taxes could have benefits for both low-income people and small business.

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BC at a glance . . .

POPULATION (thousands)	Oct 1/01	% change on one year ago
BC	4,102.8	0.9
Canada	31,156.4	1.0
GDP and INCOME		
(BC - at market prices)	2000	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	127,564	5.8
GDP *($ 1997 millions)*	124,464	3.9
GDP *($ 1997 per Capita)*	30,664	3.1
Personal Disposable Income *($ 1997 per Capita)*	19,029	3.1
TRADE ($ millions)		
Manufacturing Shipments (seas. adj.) Dec	2,635	-15.9
Merchandise Exports (raw) Dec	1,971	-46.4
Retail Sales (seasonally adjusted) Dec	3,284	5.9
CONSUMER PRICE INDEX		
(all items - 1992=100)	Jan '02	% change on one year ago
BC	115.4	0.8
Canada	116.2	1.3
LABOUR FORCE (thousands)		
(seasonally adjusted)	Jan '02	% change on one year ago
Labour Force - BC	2,129	1.6
Employed - BC	1,940	-0.2
Unemployed - BC	189	24.8
		Jan '01
Unemployment Rate - BC *(percent)*	8.9	7.2
Unemployment Rate - Canada *(percent)*	7.9	6.9
INTEREST RATES (percent)	Feb 20/02	Feb 21/01
Prime Business Rate	3.75	7.25
Conventional Mortgages - 1 year	4.55	7.20
- 5 year	6.85	7.75
US/CANADA EXCHANGE RATE	Feb 20/02	Feb 21/01
(avg. noon spot rate) Cdn $	1.5905	1.5366
US $ *(reciprocal of the closing rate)*	0.6294	0.6507
AVERAGE WEEKLY WAGE RATE		
(industrial aggregate - dollars)	Jan '02	% change on one year ago
BC	656.05	2.4
Canada	644.11	3.1

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

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BC STATS, Ministry of Management Services, Box 9410 Stn Prov Govt, Victoria, B.C. V8W 9V1
Tel: (250) 387-0327 Fax: (250) 387-0329 Web: http://www.bcstats.gov.bc.ca E-mail: BC.Stats@gems8.gov.bc.ca